No need to delay Britain's euro entry

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Why does one need a "road map" to a destination that is already obvious? The answer has to be a hidden obstruction. The Treasury explanation to the cabinet of why it is too soon for Britain to adopt the euro has not made a strong intellectual impression. Most ministers seem convinced that the short-term economic case for early entry to the eurozone has become overwhelming.

So why the need for delay? The answer presumably is "political" - the need to respond to public opinion polls. But more sophisticated polls show that if the whole government - especially the chancellor and the prime minister - joined shoulder to shoulder to explain the economic facts of euro entry, a referendum could be won inside 18 months. There would be grave political danger to the government, let alone the nation, in giving false reasons for delay - if it says the five tests have not been passed, when the truth is that they have.

Meanwhile, we are offered a bogus map by which to measure Britain's progress. One of the least plausible staging posts on this chart comes under the heading of economic reform. The argument runs that Britain should wait until eurozone markets have become more flexible. But, as Tony Blair is reported to have said recently, this is a ridiculous stance. If companies currently in the eurozone are uncompetitive, it will merely be easier for British ones to thrive there.

Arguments against entry based on the European Union's stability and growth pact are also redundant. The pact is old. It is designed to prevent creeping structural deficits, but has no counter-cyclical mechanism. It reflects thinking that was typical of none other than Gordon Brown when, in his early days in office, he used to denounce Keynesianism. Yet the Treasury now complains in effect that the pact is not Keynesian enough. Whether Britain enters the euro or not, the pact will be reformed. Various schemes are afoot, including the suggestion of Professor David Begg that independent national fiscal committees should evaluate the long-term implications of national fiscal positions. Does the Treasury have a better plan than this? If so, where is it?

Calls for reform of the European Central Bank are also beside the point. The chancellor has told the Treasury select committee that he thinks the ECB has become more transparent than the Bank of England in some respects. And the need for the ECB to have a symmetrical inflation target in order to match that of the Bank of England is also exaggerated.

When it became apparent that inflation need no longer be the only concern of policymakers, the government revised the brief of the monetary policy committee. It implicitly told the MPC that, if inflation fell below the target rate, the Bank should cut interest rates. But academic research has found that rate decisions have not been symmetrical: MPC members remained more more sensitive to fears of inflation overshooting than undershooting.

Indeed, the idea of hanging macroeconomic policy on the peg of an inflation target has become increasingly obsolete. If there must be one, it should of course be symmetrical. But the Treasury pot should not call the ECB kettle black, for the worthies in Frankfurt may well currently be behaving more symmetrically than those in Threadneedle Street.

Finally, there is housing market inflation, which the Treasury believes could be boosted by lower European interest rates. In the short run, this problem has also become irrelevant because the market is now patently in a state of excess supply. Estate agents in London say that properties listed at last year's asking price remain unsold.

In the longer term, the latest intellectual fad is fixed-rate mortgages. But no one has explained how these would make our market less volatile. Indeed, research from the National Institute of Economic and Social Research has found that the best way for Britain to stabilise its housing market would be to enter the euro.

So the bogus "economics" road map for euro entry is false, confusing and distracting. The government should have no truck with it. Instead it should set out a legislative programme for a euro referendum. It should then issue a stream of public statements setting out the long-term economic benefits of entry and the economic reasons why the time is ripe.

The writer is emeritus professor of economics at London University, and author of Get Richer Now: Why Britain Would Do Better in the Euro, published by Britain in Europe